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IN THE  
**SUPREME COURT OF THE UNITED STATES**

OCTOBER TERM, 1942.

No. 45.

**SOLA ELECTRIC COMPANY,**

*Petitioner,*

vs.

**JEFFERSON ELECTRIC COMPANY,**

*Respondent.*

ON WRIT OF CERTIORARI TO THE UNITED  
STATES CIRCUIT COURT OF APPEALS FOR  
THE SEVENTH CIRCUIT.

**BRIEF FOR THE PETITIONER.**

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**BRIEF FOR THE PETITIONER.**

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**Opinions Below.**

The opinion of the Circuit Court of Appeals upon the merits of the case is reported in 125 F. (2d) 322 and will also be found beginning at page 51 of the record. An earlier opinion of the Circuit Court of Appeals, overruling a motion to dismiss the appeal taken to that Court is reported in 122 F. (2d) 124.

The District Court did not render an opinion but merely filed a brief memorandum (R. 47) providing for an order of dismissal of petitioner's counterclaim (R. 48).

### **Jurisdiction.**

The judgment of the Circuit Court of Appeals was entered December 29, 1941 (R. 56) and became final on February 7, 1942, when a petition for rehearing was denied (R. 57). The petition for a writ of certiorari was filed March 9, 1942, and granted April 6, 1942 (R. 59).

The jurisdiction of this Court is conferred by Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925 (28 U. S. C., § 347).

### **Questions Presented.**

Respondent owns a patent relating to electric transformers largely used in the very extensive and important neon sign industry. Respondent has licensed petitioner to manufacture and sell under said patent and requires petitioner to sell at fixed prices only. The bill filed in the District Court is an action to recover royalties under the license. Petitioner manufactures and sells two transformers: one admittedly covered by the license, and a second or modified one which, if covered at all, is covered only by certain broad claims of the patent, of which respondent deliberately prevented a formal adjudication in a prior patent infringement suit, by withdrawing them after their validity had been put in issue. The decision of the Court in that case necessarily considered the subject matter of these broad claims in passing upon



other more narrow claims left in suit and found the device thereof to be in the public domain. Inasmuch as petitioner's license expressly provides that price fixing shall be applicable only "so long" as the purportedly licensed transformers "continue to be covered by said patents," petitioner now seeks a formal adjudication of the invalidity of the broad claims so as to effect a release of the second transformer from the burdens of the license, including the price control exercised by respondent.

The courts below having denied petitioner the right to controvert validity because of the principle that a licensee is estopped to deny the validity of the patent under which he is licensed, the questions presented are these:

1. Where public policy is raised in a patent license accounting suit, is a Federal Court, sitting as a court of equity, powerless because of a principle of patent license estoppel to determine the actual validity of merely *prima facie* valid patent claims? More specifically:

(a) Should an implied estoppel to contest the validity of patent claims yield in the interest of public policy at the behest of a licensee where, in a prior patent infringement suit involving the licensed patent, a competent court not only vitiated the *prima facie* validity of certain claims but also, in practical effect, found them invalid, and where, moreover, the patent license itself expressly emphasizes the public interest by providing for the release of devices covered only by invalid claims both from the imposition of royalty charges and the exercise of price control? And

(b) Is not a patent licensor estopped in the interest of public policy to invoke an estoppel against a licensee



to contest the validity of certain claims of the patent where by so doing he is taking advantage of his own deliberate avoidance of an adjudication of those claims after their validity had been directly challenged in previous patent litigation and where he is thus being empowered to fix prices under those claims?

2. Where, in adjudicating certain patent claims, a court has found patentability solely in a specific combination and has necessarily adjudicated certain subject matter to be old, is the effect thereof the equivalent of an adjudication of the invalidity of other claims of the patent which define only such old subject matter within the meaning of a license which provides for the release from its burdens of devices covered only by adjudged invalid claims?

An additional question to be discussed is that prescribed by the order of this Court, granting certiorari, as follows (R. 59):

- (1) Whether federal or state law applies, and
- (2) in the event that state law is held to govern, what the applicable state law is.

### Statement.

Respondent, Jefferson Electric Company, an Illinois corporation, sued petitioner, Sola Electric Company, a Delaware corporation, in the United States District Court for the Northern District of Illinois (R. 1-5), to recover royalties alleged to be due in accordance with the provisions of a license granted by respondent to petitioner (R. 5-10) under United States Letters Patent Nos. 1,777,256 and 1,786,422 relating to electric transformers (R. 11-22).

The case is here on certiorari to review the affirm-

ance by the Circuit Court of Appeals for the Seventh Circuit of the District Court's dismissal of petitioner's counterclaim which sought a declaration of the invalidity of certain of the claims of the '256 patent.

**(1) The Patent License**—The agreement which was entered into by respondent and petitioner on August 26, 1935, is in many respects the usual form of patent license whereby respondent, as recited owner of the two patents, granted to petitioner a non-exclusive license to manufacture, use and sell transformers "embodying the invention described and claimed" in said patents (R. 5-10). There is no express acknowledgment by petitioner of the validity of respondent's patents and there is no express stipulation by petitioner that it will not (even during the term of the license) contest the validity of the patents directly or indirectly. The relevant provisions of the license are as follows (R. 7, 8, 9):

"(5) Jefferson Company grants this license on the express condition that the prices, terms, and conditions of sale, for use or sale in the United States of America, its territories, dependencies and possessions, of transformers embodying any invention covered in the said patents, and so long as such devices continue to be covered by said patents, shall be no more favorable to the customer than those which from time to time the Jefferson Company establishes and maintains for its own sales and/or that of its other licensees of similar or competing transformers under such patents, [fol. 9] to such or other similarly situated customer purchasing in like quantities. The Sola Company shall be notified of all such prices, terms, and conditions of sale fixed by the Jefferson Company."

"(10) The Jefferson Company agrees that it will bring and diligently prosecute such suits for infringement of the patents under which this license is granted as may reasonably be necessary for enforcing those patents and preventing unlicensed competition."

"(11b) In the event that any of the claims of any Letters Patent under which a license is granted hereunder are held in any suit for infringement to be invalid or not infringed, or are awarded to another by a court of last resort or by a lower court or tribunal of competent jurisdiction from whose judgment no appeal is taken or certiorari granted within the period allowed therefor, then with respect to any claim so held to be not infringed the construction placed upon the claim by such court shall be followed with respect to acts occurring after the date of entry of the judgment or decree of such court or the issuance of the mandate, and with respect to any claims held invalid or awarded to another, the licensee shall be relieved from including in its reports hereunder transformers shipped, and acts performed, after the date of entry of the judgment or decree, or the issuance of the mandate of such court or tribunal, covered only by such claims, provided, however, that if there are two or more such final judgments, decrees, or mandates with respect to the same claim, the one more favorable to the claim shall be followed if, and so long as there is reasonable ground to believe that that judgment, decree, or mandate is correct."

Respondent's '256 patent (R. 11), which as will presently appear, is the only patent here involved, contains broad and narrow claims, and at the time of the issuance of the license to petitioner was unadjudicated.

Accordingly, the intent of the parties to the patent license is not obscure and was as follows:

Petitioner promised respondent that it would pay royalties and maintain fixed prices only so long and on such of petitioner's devices as were covered by claims of the patent whose validity was unimpaired by adverse judicial decision. Respondent, conversely, agreed that petitioner was to have the right to manufacture and sell the devices covered only by adjudicated invalid claims freed of the burdens of the license without being required to repudiate the license as to devices defined by valid claims of the patent. The limiting phrase found in the price fixing provisions, i.e., "so long as such devices continue to be covered by said patents" obviously means that price control was to be effectual only in so far as respondent had valid patent claims and shows that the parties knew that public policy forbids the exercise of price control by respondent over devices not embraced by respondent's actual patent monopoly.

To insure judicial examination of the patent when its validity was disregarded by unlicensed competitors, respondent covenanted to bring suits for infringement to enforce the patent and prevent unlicensed competition. Following judicial examination of the patent, the rights and obligations of the parties were to be fixed at, or restricted in accordance with, the adjudged scope and validity of the patent.

**(2). The Jefferson-France Litigation**—The present controversy arose by reason of the following:

In March, 1936, subsequent to the issuance of petitioner's license, respondent brought suit in the United States District Court for the Northern District of Ohio, Eastern Division, against France Manufacturing Company, an unlicensed competitor, for alleged in-



fringement of respondent's patent No. 1,777,256 (R. 43). In that suit respondent originally charged infringement of all of the narrow claims and most of the broad claims of the patent. The answer filed by the France Company asserted the invalidity of each of the claims, placed in issue by respondent, by reason of prior patents, prior publications, and prior public use and sale (R. 43). Thus the validity of respondent's claims was *directly* challenged by the France Company and a definite issue as to the *actual* extent of respondent's patent monopoly was created in that suit. Later, upon the commencement of the trial, and in the face of this direct challenge to the validity of the broad claims, respondent withdrew them from contest (R. 43). If these claims are, in fact, void, respondent thus deliberately prevented a formal adjudication of their invalidity.

The Sixth Circuit Court of Appeals found in that case (*France Mfg. Co. v. Jefferson Electric Co.* (C. C. A. 6), 106 F. [2d] 605) that the narrow claims left in suit by respondent were valid and infringed. In reaching this conclusion, that Court necessarily found, upon a review of the prior art, that a "balanced transformer" which essentially is the only device defined by the withdrawn broad claims "belonged to the public" at the time that respondent's assignors applied for the patent. The Court sustained the narrow claims, because it found patentability solely in the *specific combination* of a "balanced transformer" which was *old*, and a "midpoint ground" which was *old*, it being expressly stated by the Court that this was a *short step* only. If not expressly, at least by clear implication, the Court's review of the prior art and its conclusion on patentability published to the world the invalidity

of any claim in respondent's patent which did not contain the specific patentable combination or which, conversely stated, only defined a "balanced transformer" found by the Court to be in the public domain.<sup>1</sup>

**(3) The Basis of Petitioner's Counterclaim**—Subsequently, in May, 1940, respondent commenced the present suit (R. 1). In its answer, petitioner admitted that its first transformer was covered by respondents license (R. 35) and averred that if the manufacture and sale thereof had not been accurately reported and fully accounted for, the same was "wholly through inadvertence" (R. 35). On the other hand, petitioner denied that its second transformer is covered by the patent claims properly construed (R. 36, 39-42). However, if the broad claims of respondent's patent withdrawn from contest in the *Jefferson-France* case are the only claims which reach petitioner's second transformer, and if they are, in fact, void because the device defined thereby is in the public domain, then obviously petitioner will be required to pay royalties for and respondent will be exercising price control over devices outside the scope of respondent's actual patent monopoly. As against that possibility, petitioner included the counterclaim (R. 43-45) here in issue in its answer and prayed for a declaration of the invalidity of the broad claims withdrawn from contest in

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<sup>1</sup> See Appendix B, *post* p. 52, where we present a side-by-side comparison of claim 13 (a typical broad claim withdrawn from contest and now asserted against petitioner) and claim 14 (a typical narrow adjudged claim) and demonstrate that the broad claim defines only a balanced transformer, does not contain the specific patentable combination and is thus, on the face of the Court's opinion, invalid.



the prior litigation. Petitioner justifies the counterclaim, as amended,<sup>2</sup> on the grounds:

(1) That respondent prevented a formal adjudication, in the prior suit, of the broad claims of the patent because of the effect of a finding of invalidity of such claims upon the patent license and thereby violated the intent of the parties to and the spirit of the license, and

(2) That respondent is attempting to exercise unlawfully price control over petitioner's devices which, if covered at all, are covered only by the broad claims of the patent which were withdrawn from issue in the prior suit and which are, in fact, void.

(4) **The Opinion of the Court Below**—The Circuit Court of Appeals affirmed the dismissal of petitioner's counterclaim because of the patent law principle that a licensee is estopped to deny the validity of the patent under which he is licensed. The Court of Appeals branded the counterclaim "an effort to override that principle" (R. 53, 54) and in practical effect held that petitioner should waive and give up its license and jeopardize its obvious investment in plant equipment by becoming a deliberate infringer of narrow adjudged valid claims, as to one of its transformers in order to establish the rights of the public in another transformer defined, if at all, only by broad but invalid claims.

Dealing with petitioner's insistence that, if the broad claims are in fact void, respondent is, in substance, im-

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<sup>2</sup> The clarifying amendment (R. 47) directly avers the invalidity of the disputed claims because of the prior patents, etc., set out in paragraph 14 of petitioner's answer (R. 40-42).

posing unjust charges upon and exercising price control over transformers not embraced by respondent's actual invention, the Court of Appeals held that public policy was not involved here because, "the public by its government has granted a patent" to respondent upon everything which was licensed to petitioner and that this "grant carries with it a presumption of validity until it is overcome by the judgment of a federal court" (R. 53). The Court consequently held that the record disclosed no attempt on the part of respondent "to fix prices upon anything not covered by the patent" and ruled that the situation hence is "not amenable to anti-trust laws in the interest of public policy" (R. 53).

The Court of Appeals refused to modify or restrict the principle of patent license estoppel in the interests of public policy and stated:

"Public policy from the beginning of our Government has favored the issuance of patents, and Congress and the courts, consistent with that purpose have protected them by legislation and judicial interpretation. It seems to us that the ends have justified the means. Any departure from the well-settled principles should be addressed to Congress and not the courts" (R. 54).

Petitioner also contended in the Court below that respondent was estopped to invoke a patent license estoppel against petitioner because it was the clear duty of respondent to keep the broad claims in contest in the former litigation if it thereafter intended to exercise price control under those claims or assert an estoppel against petitioner. The Court of Appeals found, however, that respondent discharged its obligations, apparently both public and private, by only establishing the validity of three narrow claims (R. 54).

### **Specification of Errors to Be Urged.**

The Circuit Court of Appeals erred:

1. In affirming the order of the District Court for the Northern District of Illinois which dismissed petitioner's counterclaim, as amended.
2. In failing to remand the cause and direct the said District Court to overrule respondent's Motion to Dismiss the counterclaim, as amended.
3. In failing to hold that the said counterclaim, as amended, states a proper and valid cause of action.

### **Summary of Argument.**

#### **I.**

The decision of the Court below is not sanctioned by the patent laws of the United States and federal public policy.

Price fixing is unlawful *per se* (*United States v. Socony Vacuum Co.*, 310 U. S. 150), and is permitted in patent licenses only because the public is not entitled to free competition in the subject matter of the patent (*Bement v. National Harrow Co.*, 186 U. S. 70, 91; *United States v. General Electric Co.*, 272 U. S. 476). Where a patentee fixes prices under an invalid patent, he obviously is exercising control over devices for which no patent monopoly lawfully exists in fact, and as to which consequently there can be no legal price fixing. Hence, where a patent license contains price fixing provisions, and the asserted licensed device is covered, if at all, only by invalid claims, any estoppel on the part of the licensee to contest the validity of the licensor's patent is clearly overcome by superior public interests.

No express provision of the patent laws gives a patentee the right to determine the price at which his licensees shall sell. Hence, public interest requires that the test of the exercise of that right, as being in furtherance of the purpose of the patent laws, should be actual invention, as determined through the medium of an appropriate action, as for instance, a declaratory judgment petition, and not the mere implied admission of validity of a licensee (*Dunbar v. Myers*, 94 U. S. 187, 199; *Hill v. Wooster*, 132 U. S. 693; *Haughey v. Lee*, 151 U. S. 282; *Paramount Public Corp. v. American Tri-Ergon Corp.*, 294 U. S. 464, 477).

The Court's ruling that, consistent with a public policy favoring patents, resort to Congress is necessary to override the rule of estoppel is indefensible.

A. Public policy, while favoring patents, also safeguards the rights of the public. In fact, the inventor's limited special privilege is subordinate to public interest which after all is the favorite of the law (*Pennock v. Dialogue*, 2 Pet. 1; *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502; *Morton Salt Co. v. G. S. Suppiger*, 314 U. S. 488; *United States v. The Masonite Corp.* [No. 723, Oct. 1941 Term, decided May 11, 1942], ... U. S. ....). It is as important to the public that competition should not be repressed by a worthless or invalid patent as that the patentee of a really valuable invention should be protected in his monopoly (*Pope Mfg. Co. v. Gormully*, 144 U. S. 224).

B. The rule of patent-license estoppel is not a controlling legal principle which overrides public policy. It is based on an unsound landlord-tenant analogy, and denying as it does petitioner's right to show the truth,



it should be restricted and not enlarged. The instant case requires a reexamination of the rule and a determination of its applicability where a license contains price fixing provisions and especially recognizes the dominant public concern by providing that the price fixing provisions should be effectual only so long as the licensee's devices are covered by valid patent claims. Public interests are moreover directly concerned with respondent's conduct in the previous patent litigation which has enabled respondent deliberately to avoid an adjudication of its patent claims in the face of a challenge to validity and yet have the right to exercise price control under such claims. By its conduct, respondent should be held to have disqualified itself from claiming the benefit of the patent license estoppel.

## II.

The decision of the Sixth Circuit Court of Appeals in the *Jefferson-France* litigation published to the world the invalidity of the broad claims of respondent's patent, because it is implicit in that decision that a claim is invalid if it does not embody the specific patentable combination or if it only defines a "balanced transformer" which the Court found to be old. It inevitably follows that the estate, which was supposed by all to belong to respondent by virtue of its broad claims, was judicially determined to belong to the public (*Ross v. Fuller & Warren Co.* (C. C. N. Y.) 105 Fed. 510), and thus the decision is the full equivalent of an adjudication of invalidity within the meaning of the provisions of the patent license, with the result that devices covered only by invalid patent claims are released from the burdens of the license.

### III.

The doctrine of *Erie R. Co. v. Tompkins*, 304 U. S. 64, properly is restricted to diversity of citizenship cases. Consequently it is inapplicable to the instant case, which does not depend for jurisdiction upon the citizenship of the parties, but upon federal statutes relating to patents. The need for uniformity of decision does not exist here because a federal court sitting in a non-diversity case such as this, does not sit as a local tribunal.

In any event, the questions involve judicial determination of rights and privileges under the Constitution and federal statutes, and are thus federal questions, to be disposed of in accordance with federal law and policy (*Prudence Realization Corp. v. Geist*, 316 U. S. 89, and cases there cited).

The relevant parts of statutes directly and indirectly involved are set out in Appendix A, *post*, p. 49.

## ARGUMENT.

### I.

WHERE A PATENT LICENSE CONTAINS PRICE FIXING PROVISIONS AND THE LICENSOR HAS PREVIOUSLY DELIBERATELY AVOIDED AN ADJUDICATION OF THE CLAIMS UNDER WHICH HE INSISTS ON CONTROLLING PRICES, PUBLIC POLICY REQUIRES THE ESTOPPEL OF THE LICENSEE TO YIELD TO AN EXAMINATION INTO THE ACTUAL VALIDITY OF THE PATENT CLAIMS.

The issuance of letters patent of invention, as authorized by the Constitution, has been expressly made by Congress to depend upon considerations of novelty, utility, and invention (R. S. §4886, 35 U. S. C. §31, Ap-



pendix A, *post*, p. 49). But the actual presence of these prerequisites must be ascertained by the courts in actions arising under the Patent Laws because a patentee "is not entitled to the public protection, unless the supposed improvement involves *actual invention*" (*Dunbar v. Myers*, 94 U. S. 187, 199). Thus, as was pointed out by Mr. Chief Justice White in his dissent in *Henry v. Dick*, 224 U. S. 170, although the public authority "has been favorably exerted, yet when the rights of individuals are concerned the judicial power is then open to be invoked to determine whether the fundamental conditions essential to the issue of the patent existed."

Petitioner, by its counterclaim for a declaratory judgment of the invalidity of certain claims of respondent's '256 patent, endeavored to set in motion the judicial power of the District Court to examine into the actual validity of these claims. In denying petitioner the privilege so to invoke this power and by imposing a patent license estoppel upon petitioner, the courts below have substituted for actual validity the estoppel of petitioner, as created by its implied admission of validity, to the prejudice of the public.

That an examination, in these proceedings, into the *actual* validity of the broad patent claims was clearly required is evident from the following:

In *United States v. Socony Vacuum Oil Co.*, 310 U. S. 150, this Court stated that (p. 218):

" . . . for over forty years this Court has consistently and without deviation adhered to the principle that price fixing agreements are unlawful *per se* under the Sherman Act. . . . And we reaffirmed that well established rule in clear and unequivocal terms in *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 458, where we said:

'Agreements for price maintenance of articles moving in interstate commerce are, without more, unreasonable restraints within the meaning of the Sherman Act because they eliminate competition, *United States v. Trenton Potteries Co.*, 273 U. S. 392, and agreements which create potential power for such price maintenance exhibited by its actual exertion for that purpose are in themselves unlawful restraints within the meaning of the Sherman Act. . . .'

Price fixing in patent licenses is permitted only because the public is not entitled to free competition in the subject matter of the patent (*Bement v. National Harrow Co.*, 186 U. S. 70, 91; *United States v. General Electric Co. et al.*, 272 U. S. 476). This is true notwithstanding that it was a "dread of enhancement of prices and of other wrongs" which lead "as a matter of public policy" to the enactment of the Sherman Anti-Trust law and to the "prohibition or treating as illegal all contracts or acts . . . restraining the free flow of commerce and tending to bring about the evils such as enhancement of prices which were considered to be against public policy" (*Standard Oil Co. v. United States*, 221 U. S. 1, 58).

The patent laws and anti-trust laws were each passed under separate grants of constitutional power. Neither makes reference to the other, but there is a clear inter-relationship which has been expressed by this Court in *Standard Sanitary Mfg. Co. v. United States*, 226 U. S. 20, 49, thus:

"Rights conferred by patents are indeed very definite and extensive, but they do not give any more than other rights an universal license against positive prohibitions. The Sherman law is a limitation of rights, rights which may be pushed to evil consequences and therefore restrained."

The pattern of the laws was also pointed out by Mr. Justice Brandeis in *Standard Oil Co. v. United States*, 283 U. S. 163 (footnote, page 169), as follows:

"Historically, patent grants were only narrow exceptions to the general public policy against monopolies which . . . culminated in the Statute of Monopolies. . . . Even apart from the limitations of the Anti-Trust laws, the monopoly granted by the patent statute is not unrestricted in scope."

Since a patent is a limited form of permissive monopoly, the public may not insist upon that same price competition in devices covered thereby to which it is entitled in unpatented devices. But when a licensor fixes prices under an invalid patent, manifestly he is imposing unjust charges upon devices as to which no limited monopoly exists in fact and as to which, consequently, there can be no legal fixing of prices.

Hence, where a device is covered, if at all, only by invalid claims of a licensed patent, a licensee should be permitted to show the invalidity of said claims because public policy forbids the unjust imposition of charges by a patent owner upon devices not embraced by his actual monopoly and requires a curtailment of his attempt to fix prices thereon, with the result that any estoppel on the part of the licensee is clearly overcome by superior public interests.

In his recent Linthicum Foundation (Northwestern University) First Award Monograph, *Patents and Antitrust Law*, Laurence L. Wood, dealing with this question, has stated (p. 50):

" . . . the logic of the contention that the estoppel disappears is almost indisputable: absent the element of valid patent protection the horizontal price-fixing agreement is void under the en-

tire line of cases applying the Sherman Act, reaffirmed in the *Socony-Vacuum* case.<sup>13</sup>

When we consider (a) that the power of a patentee to contract in restraint of trade is restricted to "just what his inventive genius has discovered" (*Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502, 513), and (b) that Mr. Chief Justice Taft in the *General Electric* case clearly imposed the conditions that price fixing must be "reasonably within the reward which the patentee by the grant of the patent is entitled to secure" or "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly" (272 U. S. 489, 490), it is obvious that if no monopoly in fact exists or if patent claims define only devices which are part of the public domain, the claims, when challenged in a proper action, should be declared invalid and the patentee thereafter enjoined from fixing prices upon these devices.

The Court below held that it was powerless to relieve against a technical estoppel, created by a patent license, and, therefore, unable to inquire into the validity of the merely *prima facie* valid claims. The Court refused to apply, as analogues already settled by this Court, the rules (a) that a patent owner is confined to profits derived from the patented invention,<sup>4</sup> (b) that a patent owner may not control or fix the price at which unpatented materials or articles may

<sup>13</sup> The author has also very properly pointed out (pp. 50, 51) that no question of validity of patents was involved in the *Bement* and *General Electric* cases where the right of a patentee to fix prices was upheld and that this "precise issue was not presented" in those cases.

<sup>4</sup> *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 517—see also, *American Lecithin Co. v. Warfield Co.* (C. C. A. 7), 105 F. (2d) 207.



be sold by his licensee,<sup>3</sup> and (c) that public interest requires a patent monopoly to be predicated upon the statutory requirement of invention and not upon mere inference from the previous conduct of a member of the public.<sup>4</sup>

For example, it was held in *Carbice Corporation v. American Patents Development Corporation*, 283 U. S. 27, that the attempt there to employ a patent to secure a limited monopoly upon unpatented materials was "analogous to the use of a patent as an instrument for restraining commerce which was condemned, under the Sherman Anti-Trust law in *Standard Sanitary Mfg. Co. v. United States*, 226 U. S. 20." The same result was reached by this Court in *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458; *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488; and *B. B. Chemical Co. v. Ellis*, 314 U. S. 495.

The rationale of these cases requires that the estoppel of petitioner to contest validity be overridden. If a patent owner is required to derive his profit solely from his *actual* invention and if he is forbidden the right to fix the prices of unpatented articles; it follows that when certain claims in a patent have been definitely earmarked, in an infringement suit, to describe only that which is in the public domain the device defined thereby is consequently in effect an unpatented device and the patentee or his assignee should not be permitted to prevent an inquiry into the validity of the claims when properly challenged in a subsequent suit.

Furthermore, if patentability may not be established

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<sup>3</sup> *Carbice Corp. v. American Patents Corp. et al.*, 283 U. S. 27, *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458.

<sup>4</sup> *Haughey v. Lee*, 151 U. S. 282; *Paramount Publix Corp. v. American Tri-Ergon Corp.*, 294 U. S. 464.

upon mere inference from the conduct of the parties or by agreement, because it must be based upon invention, a requirement which cannot be overlooked (*Hill v. Wooster*, 132 U. S. 693; *Haughey v. Lee*, 151 U. S. 282; *Paramount Publix Corp. v. American Tri-Ergon Corp.*, 294 U. S. 464, 477), it inevitably follows that when a patent license seeks to encroach upon the public domain and restrain trade by means of price fixing provisions, in devices which, if covered at all, are covered by invalid patent claims, there can be no question of the public interest and the need for relieving the licensee from the technical estoppel to attack the licensor's patent.

The Court below, also, evaded its responsibility of re-examining the rule of implied patent license estoppel in the light of the public policy involved and held that consistent with a public policy favoring *only* the patentee, resort to Congress was necessary for any departure from the well-settled principles (R. 54).<sup>7</sup>

This error of the Circuit Court of Appeals is made manifest by a consideration of (1) the true nature of public policy as to patents, and (2) the rule of patent license estoppel as affected by the paramount considerations of that policy.

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<sup>7</sup> Cf. *Helvering v. Hallock*, 309 U. S. 106, 121, where Mr. Justice Frankfurter observed that the courts walk on quicksand when they "try to find in the absence of corrective legislation a controlling legal principle," and that (p. 122) "The real problem is whether a principle shall prevail over its later misapplications."



(1) **The True Nature of the Public Policy as to Patents**—In *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 510, Mr. Justice Clark stated that since *Pennock v. Dialogue*, 2 Pet. 1, this Court has consistently held that the primary purpose of the Patent Laws was “to promote the progress of science and useful arts.” and he also there pointed out that (p. 519) public interest is “the favorite of the law.”

The true nature of public policy as to patents and the relative importance of the public and private interests involved in every grant of a patent was recently reaffirmed by this Court in *United States v. The Masonite Corp.* (No. 723, October, 1941, Term, decided May 11, 1942), ..... U. S. ...., 86 L. Ed. 1006. In that case, Mr. Justice Douglas, again referring to *Pennock v. Dialogue*, stated:

“..... the promotion of the progress of science and the useful arts is the ‘main object’; reward of inventors is secondary and merely a means to that end. Or, in the words of Mr. Justice Daniel in *Kendall v. Winsor*, 21 How. 322, 329, ‘Whilst the remuneration of genius and useful ingenuity is a duty incumbent upon the public, the rights and welfare of the community must be fairly dealt with and effectually guarded. Considerations of individual emolument can never be permitted to operate to the injury of these.’ And see *Blount Mfg. Co. v. Yale & Towne Mfg. Co.*, 166 F. 555.”

The law, in allowing the grant of a patent, has not failed to protect the rights of the public; on the contrary, it has safeguarded them. Thus, while patentees have rights, the public has rights also. “The rights of both should be upheld and enforced by an equally

firm hand, wherever they come under judicial consideration" (*Densmore v. Scofield*, 102 U. S. 375, 378).\*

The public is thus interested in every adjudication with respect to patents; consequently, there is no question of the duty of courts having jurisdiction of patent causes to consider the rights of the public, so that they may be enlarged rather than diminished by judicial determination. That the public is a third party to every patent case is apparent from *Hill v. Wooster*, 132 U. S. 693, and see also the final remarks of Mr. Justice Jackson in *Muncie Gear Works v. Outboard, Marine & Mfg. Co.*, 315 U. S. 759, 768.

In the recent decision of *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488, Chief Justice Stone stated in part that (p. 492):

" . . . the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention."

The functions of the federal courts in carrying out this policy were stated by the Chief Justice to be as follows (p. 492):

" . . . courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest . . .

" . . . The patentee, . . . of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy" (p. 494).

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\* Quoted approvingly by Mr. Justice Black in his dissent in *Exhibit Supply Co. v. Ace Patents Corp.*, 315 U. S. 126.

If a court may appropriately withhold its aid from a patent owner to safeguard public interest as ruled in the *Morton Salt Co.* case, it necessarily has the power to grant its aid to secure the same result by relieving against a technical estoppel. This was demonstrated at an early date in *Pope Manufacturing Co. v. Gormully*, 144 U. S. 224, where, because of an issue of public policy, this Court relieved against an express covenant not to contest the validity of, or infringe upon, certain patents and permitted an inquiry into those patents.\* This Court then said (p. 234):

" . . . It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly."

In the instant patent license, there is no express acknowledgment by petitioner of validity, nor has petitioner expressly covenanted not to contest validity; on the contrary, the estoppel arises by implication only.

The same public policy which confers the patent privilege has one eye squarely on the rights of the public and quite obviously, the Court below should not have taken the view that public policy favored only the patentee.

**(2) The Patent License Estoppel Is Not a Controlling Legal Principle Which Overrides Public Policy—**  
Estoppels are highly technical. They sometimes com-

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\* See the companion cases, Nos. (2) and (4), 144 U. S. 238 and 144 U. S. 254, respectively, where it appears that the patent infringement complaints also pleaded the contract estoppel. Because of the ruling in the main contract action, this latter ground was not further considered and the cases were treated as ordinary actions for infringement.

pel a person to admit that to be true which is not true (*Westinghouse Electric & Mfg. Co. v. Formica Insulation*, C. C. A. 6, 288 Fed. 330), and act upon a theory which is contrary to the truth (*Simm v. Anglo-American Telegraph Co.*, 5 Q. B. D. 188, 202). It is consequently fundamental that they should not be applied except where clearly justified.

The implied estoppel of a licensee to dispute the validity of his licensor's patent was developed by the courts on the basis of a landlord-tenant analogy. In the note "Estoppel Based on Relationship," 39 Harvard L. R. 637, it is stated that it is "doubtful whether the analogy is sound."<sup>10</sup> True, the patent license estoppel has become a part of the law, "but doubts as to its soundness have caused the grounds for it to be critically examined and to be restricted rather than enlarged" (Kirkpatrick, J., *Chance v. Lehigh Nav. Coal Co.* (D. C. E. D. Pa.), 25 F. Supp. 532, 534).

While the principle of patent license estoppel has been highly valued, it would seem clear that great care must nevertheless be taken by the courts so as not to

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<sup>10</sup> Aside from the reasons given in the cited article, the analogy is probably unsound because a licensee under a patent does not enter into or use any property transferred by the licensor. Real estate law and patent licenses are thus in this respect significantly different. The tenants' estoppel is of feudal origin and arises from user; it is a shadow of the ancient fealty, based on investiture or livery of seizin. A licensee does not obtain the right to make, use, or vend the patented device because the patentee himself has no such right (*Bloomer v. McQuewan*, 14 How. 539) and the estoppel does not thus arise from user; it arises by implication only, since the licensor passes nothing to the licensee except immunity from suit (*The Paper Bag Patent Case*, 210 U. S. 405).



permit it to overcome principles of law, equal or perhaps superior in solemnity and importance.

Public policy is, of course, a superior principle of law. It is moreover a vital factor in the consideration of patent licenses, because they sometimes create by contract, rights—apart from the exclusive patent privilege to “make, use and vend”—which the Patent Laws neither contemplated nor authorized. It is also a factor because the statutes which create the patent privilege are entirely silent as to the manner in which it may be enjoyed, that is to say, as to the right of a patentee to issue licenses or to fix prices.

The reasons for a paramount public interest over the power of a patentee to issue licenses or to contract in restraint of trade are not obscure.

In his famous dissent in *Henry v. Dick*, 224 U. S. 1, Chief Justice White condemned the practice of resorting to a contract:

“ . . . for the purpose of bringing numerous articles of common use within the monopoly of a patent when otherwise they would not have been embraced therein, . . . ” (224 U. S. 56).

Thus he said the whole of society would be subjected to a “widespread and irksome monopolistic control.”

The Chief Justice also protested that the contracting power of a patentee in respect of his patent “like every other power, should be subject to the law of the land.”<sup>11</sup> To hold otherwise would permit, he said (224 U. S. 70):

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<sup>11</sup> The dissent and protest were not in vain. Within five years, this Court in the *Motion Picture Patents Case* overruled *Henry v. Dick* and held, in effect, that the contracting power of a patentee was restricted to “just what his inventive genius has discovered” (243 U. S. 502, 513).

" . . . a vast zone of contract lying between rights under a patent and the law of the land, where lawlessness prevailed and wherein contracts could be made whose effect and operation would not be confined to the area described, but would be operative and effective beyond that area, so as to dominate and limit rights of every one in society, the law of the land to the contrary notwithstanding."

In view of the plain objects and purposes of the patent laws, to allow a patent owner by contract to extend the scope of its claims, said the Chief Justice, would make the contract right greater than the patent right (224 U. S. 70):

" . . . since by the mere will of the party rights by contract could be created, protected by the patent law, without any of the precautions for the benefit of the public which limit the right to obtain a patent."

The contract of a patentee in restraint of trade must, therefore, always be viewed in the light of these fundamentals and an estoppel created by such a contract is of course subject to the same limitations.

It follows that re-examination of the rule of patent license estoppel is clearly required because adherence thereto in the instant case squarely collides with the more embracing question of public policy as presented here by (a) the very provisions of the license upon which the estoppel was predicated, or (b) respondent's conduct in the Jefferson-France litigation in avoiding an adjudication of the claims under which the estoppel is now asserted.

**(a) The Provisions of the Instant Patent License Itself Presented a Matter of Public and Economic Concern Which Required the Implied Estoppel to Yield**—The public, as we have seen, is entitled to free competition in a device which is a part of the public domain, and hence, the public is injured and its interest arises when a patent owner collects royalties upon, controls the price of, or represses competition in such a device.

This paramount public interest was clearly recognized by respondent when it agreed that the price fixing provisions of the license should be effectual "so long as such devices continue to be covered by" respondent's patents (R. 7). Petitioner and the public, as well, were accordingly freely endowed by the instant patent license with everything in the public domain.

In the event of the invalidity of one or more claims of respondent's patents, petitioner was to be on an equal footing with the rest of the world. Petitioner presumably, in the intention of the parties, could not successfully engage in the manufacture and sale of a device covered only by invalid claims in competition with other manufacturers. It would then be at the mercy of such manufacturers, who (having no license burdens) could and undoubtedly would undersell petitioner on the market, fixing a price less than that which was fixed by respondent and required to be maintained by the patent license. It was therefore not only the essential spirit of the patent license that the obligation of petitioner to maintain prices be no greater than the actual monopoly of the respondent, but also the parties knew that public policy forbids that the members of the public be required to purchase devices belonging to the public domain at a controlled price which in-

cluded an unwarranted patent royalty. Accordingly, it was *expressly* agreed (R. 9) that petitioner was not to be curtailed in the manufacture and sale of devices or structures defined only by invalid claims because obviously such devices and structures necessarily constituted a part of the public domain. Nor was petitioner to be required to maintain fixed prices therefor (R. 7).

Thus, on the face of the very contract before the Court, public interests were presented.

That the public is interested, *eo instanti* in a license, under a patent, which seeks to control unpatented materials or devices which are not included in the exclusive privilege to "make, use and vend" is apparent from the decision of this Court in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502. Holding, in effect, that the power of a patent owner to contract in restraint of trade is restricted to "just what his inventive genius has discovered," this Court said in that case (243 U. S. 502, 513):

" . . . It is all that the statute provides shall be given to him and it is all that he should receive; for it is the fair as well as the statutory measure of his reward for his contribution to the public stock of knowledge."

It would seem clear, therefore, that when a patent license fixes prices, public interest instantly arises upon the face of the license. It is hence imperative when the validity is properly challenged, that the true facts as to the validity of the claims be shown because the licensor's right to control prices obviously must depend on satisfaction of the statutory requirement of invention, and not upon mere implied admission of validity of the licensee. This is particularly true in the instant case where the parties clearly recognized the



limited power of the licensor to fix prices by unambiguously excluding from the price fixing provisions devices covered only by adjudged invalid claims.

We submit that the existence in the patent license of price fixing provisions was, of itself, sufficient ground for overriding the implied estoppel and for permitting petitioner to show the true facts as to the actual validity of the broad claims of respondent's patent.

**(b) Respondent's Conduct Also Afforded Ample Ground for Relieving Against the Estoppel in the Interest of Public Policy**—Respondent's covenant to enforce its patents and prevent unlicensed competition was a dependent and concurrent one which must be considered *in pari materia* with the obligations of petitioner to pay royalties and maintain fixed prices (Cf. *Lou v. Pomona Land & Water Co.*, 153 U. S. 564, 573, 576).<sup>13</sup> It was the only vehicle by which the exemptions and releases provided for in paragraph 11b could be brought into effect.

The parties contemplated that the patents *prima facie* created in respondent the right to exclude all persons (except respondent and its authorized licensees) from the manufacture, use, and sale of the devices covered by, or defined in, the various claims of the patents. The continuance of the enforceable validity of all of the claims of the patents and the continued exclusiveness of the rights of respondent and its li-

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<sup>13</sup> See also *Willey et al. v. New Standard Concentrator Co.* (C. C. A. 9), 164 Fed. 421, 423; *Penley Bros. Co. v. Hall* (C. C. A. 1), 84 F. (2d) 371, 374, Cf. *McKay v. Smith*, (C. C. Mass.), 39 Fed. 556, and *Nat. Rubber Co. v. Boston Rubber Shoe Co.* (C. C. Mass.), 41 Fed. 48, which are to the effect that the covenant will not be implied, but indicating that if expressed, it would be a dependent one.

censees were, therefore, the root and heart of the price fixing provisions of the license.

The diligent enforcement of respondent's patents and the exemptions conferred by the provisions of paragraph 11b in the event that their *prima facie* monopoly was destroyed, were plainly of vital public importance, for the reason that supplementing the exemptions of paragraph 11b is the limiting phrase found in the price-fixing provisions of paragraph 5—i.e., "so long as such devices continue to be covered by said patents." This limitation obviously means that the price-fixing provisions were intended to be effectual only so long as respondent was possessed of valid claims as determined pursuant to the provisions of paragraph 11b.

Is respondent, by so simple a procedure as the mere withdrawal of the broad claims of the '256 patent from issue in the *Jefferson-France* litigation, after validity had been challenged, to be empowered to exercise price control over transformers which, if covered at all, are covered only by such broad claims? Should respondent, in equity and good conscience, be permitted to assert an estoppel against petitioner, and thereby, in effect, secure the right to continue to fix prices upon devices covered only by the broad claims withdrawn from issue in the *Jefferson-France* litigation?

It is elemental that a party should not be permitted to take advantage of his own wrong. Thus, where obligations are to be fixed or benefits are to arise, in accordance with a contract, upon the occurrence of a future act, the law does not allow a party to place any obstacle in the way of the happening of such event. This is particularly true where the event is dependent, in whole or in part, on his actions (*Williams v. The*

*Bank of the United States*, 27 U. S. 96, 102; *St. Louis Dressed Beef Co. v. Maryland Casualty Co.*, 201 U. S. 173).

Moreover, that public interests are directly concerned with respondent's course of conduct in the *Jefferson-France* case and the right now asserted to invoke an estoppel against petitioner appears from *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488, 493, where it was said:

"Undoubtedly 'equity does not demand that its suitors shall have led blameless lives' . . . but additional considerations must be taken into account where maintenance of the suit concerns the public interest as well as the private interests of suitors."

Respondent, by withdrawing the broad claims from contest, prevented the contingency set up in paragraph 11b from being fulfilled—there being no doubt as to the view of the Court of Appeals for the Sixth Circuit as to the invalidity of the broad claims. Is not respondent now disqualified from opposing a showing by petitioner of the undoubted fact of invalidity which will relieve petitioner and the public of monopolistic and unwarranted control under those claims?

Respondent's withdrawal of the claims from contest in the *Jefferson-France* case was brought about by either (a) a conclusion that the claims were not infringed, or (b) a conclusion that they were invalid and would be so declared by the Court.

The first must be eliminated. Respondent had itself originally determined that these claims were infringed (R. 43). Moreover, if France infringed a narrow claim, there was infringement *a priori* of the broad claims.

If respondent concluded that the claims were invalid

(as must be the case), its strategy was dictated by these considerations:

(a) If all of the claims were left in suit and all found not infringed or invalid, not only would respondent lose its suit but also its vast licensing system, and price control would be destroyed; and

(b) If the three narrow claims left in suit were found not infringed or invalid, respondent would nevertheless be in possession of its broad claims and thus still in a position to dominate its licensees and exercise price control.

The public is obviously vitally interested in the conduct of respondent which has enabled respondent to avoid an adjudication of the broad claims of its patent in the face of a direct challenge to their validity and still have the right to control prices thereunder.

Truly we say that, on a principle akin to the equitable maxims that a party seeking equity must do equity or have clean hands, respondent has disqualified itself from claiming the benefit of the patent license estoppel.

The Court below agreed with respondent's contentions that it alone had the right to determine which claims would be finally adjudicated in the *France* litigation. This is begging the issue, and confuses the right to control a lawsuit with rights of the public in devices found by the Court in the Sixth Circuit to be in the public domain.<sup>14</sup>

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<sup>14</sup> Cf. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488, 494:

" . . . It is the adverse effect upon the public interest of . . . the patentee's course of conduct which disqualifies him . . . regardless of whether the particular defendant has suffered. . . ."



We submit that the Court below should have held that respondent's conduct, in the *Jefferson-France* case, also afforded ample grounds of relieving, in the interest of public policy, against petitioner's implied estoppel.

## II.

THE JEFFERSON-FRANCE DECISION WAS THE EQUIVALENT OF AN ADJUDICATION OF INVALIDITY WITHIN THE MEANING OF THE LICENSE AND EFFECTED THE RELEASE OF DEVICES COVERED ONLY BY SUCH CLAIMS.

Because petitioner urged that the Sixth Circuit decision published to the world the invalidity of the broad claims of the patent and that, hence, there was an equivalent of the adjudication of invalidity contemplated by the license as to the devices covered only by these claims, it was incumbent upon the Court below to consider and construe the decision.

The Court has purported to do so and has found (R. 55) that there is no language in the decision which bears out the statement that the Sixth Circuit Court, "inferentially at least, declared those withdrawn claims invalid."

This holding is clearly erroneous, as we shall now demonstrate.

After consideration of the evidence adduced, including a careful analysis of prior patents, publications, and uses, the Sixth Circuit Court of Appeals in the *Jefferson-France* case, said (106 F. (2d) 608):

"It will be seen from this résumé of earlier patents and prior use that the balanced transformer belonged to the public at the time appellee's assignors applied for their patent and that midpoint grounding for the purpose of cutting in half dan-

gerous voltage was in use in transformers of the unbalanced type." (Emphasis added.)

If plaintiff's assignors had not invented the "balanced transformer" and if such devices generally belonged to the public and were beyond the scope of the monopoly of the patent, what then had they invented and what was the monopoly which plaintiff was entitled to? The Sixth Circuit Court of Appeals answered these inquiries thus (106 F. (2d) 609):

"Appellee's assignors were the first to design a transformer with the midpoint ground placed with a definite relationship to the coils, shunts and core of the transformer, . . . This was a combination of the balanced transformer and the midpoint ground, which had theretofore been used in the unbalanced transformer. . . . It is true that the step taken by them was short, but it had theretofore escaped the skill of the art, although an intensive effort had been made to find it." (Emphasis added.)

The Sixth Circuit Court of Appeals thus found that the step taken by plaintiff's assignors "was short"; in other words, they had merely transferred the "midpoint ground" theretofore used in the old "unbalanced transformer" to the old "balanced transformer." But the Sixth Circuit Court of Appeals unequivocally found that a "balanced transformer" was old; also that a "midpoint ground" was old. The *specific combination* of the two was solely and precisely that which was found by the Court to be *new* and *patentable*.

In Appendix B, *post*, p. 52, we have set out a side-by-side comparison of claims 13 and 14 of the '256 patent. We there conclusively demonstrate that broad claim No. 13 withdrawn from contest by respondent and now asserted against petitioner is directed only to a "balanced transformer" which the Court found "be-

longed to the public" and does not expressly or impliedly contain the specific combination which the court considered inventive.<sup>15</sup>

Since it was implicit in the Court's review of the prior art and its conclusion as to patentability that any claim in the patent which does not have the adjudged specific combination, or conversely stated, which defines only the *old* balanced transformer, is an invalid claim, it inevitably follows that the "estate" which was supposed by all to belong to respondent by virtue of its broad patent claims "was judicially determined to belong to the public" (*Ross v. Fuller & Warren Co.* (C. C. N. Y.), 105 Fed. 510).

The decision of the Sixth Circuit Court of Appeals, accordingly, published to the world that the monopoly of the broad claims no longer exists in fact.<sup>16</sup> The

<sup>15</sup> Respondent will argue, as was held by the Court below, that the Sixth Circuit Court expressly declined to hold the withdrawn claims invalid. This is not so. That Court was asked to declare the entire patent invalid for respondent's failure to file a disclaimer under 35 U. S. C. §§65, 71, after respondent became aware of the invalidity and withdrew the claims from contest. It was apparently assumed by the Court that the claims were invalid, but it was held that no duty to disclaim had arisen in the circumstances involved, because the invalidity had not been previously judicially determined. (106 F. (2d) 610, 611.) For confirmation hereof, see the petition for certiorari filed in *France Mfg. Co., petitioner, v. Jefferson Electric Company, respondent*, No. 626, to the October, 1939, Term of this Court. (Denied Jan. 29, 1940, 309 U. S. 657.)

<sup>16</sup> It must not be overlooked that the patentees of the '256 patent originally supposed that they had invented a new "balanced transformer." The advantages thereof were described at length in the specification of the patent (R. 14, lines 38-46; R. 15, lines 50-55) and the patent teaches that the "midpoint ground" may be used "or omitted" as desired (R. 19, lines 98-103).

practical result of the decision was to destroy the "exclusive preserve" of respondent's broad claims if they define nothing more than an old "balanced transformer."

In the *Ross* case, the licensor's patent had been involved in prior litigation and the claim placed in issue had been declared invalid. There were several other claims of the patent *not involved* and not *passed upon* in the prior suit. *Ross*, the licensee, contended that the prior decision "was so sweeping" that the "practical result" thereof was to destroy the exclusive right of the claims not adjudicated.

Judge Coxe, an eminent patent law jurist, after examining the prior decision, held (p. 513):

"... Theoretically it may be argued with plausibility that the last three claims were not invalidated, but the practical result of the *Arlington* decision was death to the first claim and hopeless paralysis to all the others."

Correspondingly, the practical result of the *Jefferson-France* decision was narrow, *short step* patentability for the three claims involved and "hopeless paralysis" to all other claims which defined only the old "balanced transformer." We submit, moreover, that it is immaterial whether the prior decision under consideration validates or invalidates the claims in suit. It is the practical effect of the adjudication, whether for or against the claims, which must be considered. Comparison of claims not involved with the subject matter adjudicated is required so that validity of the not involved claims may be properly determined.<sup>17</sup>

<sup>17</sup> Compare the duty of the courts under the disclaimer statutes (35 U. S. C. §§ 65, 71), as held in *Maytag Co. v. Hurley Mach. Co.*, 307 U. S. 243, to compare claims retained



If it was held in the Sixth Circuit that a balanced transformer belonged to the public and if the broad claims only define such device, then it cannot be disputed that petitioner has been *evicted*<sup>18</sup> under its license by the paramount title of the public in such devices.

In *Drackett Chemical Co. v. Chamberlain Co.* (C. C. A. 6), 63 F. (2d) 853, after a careful review of the decisions on eviction in the case of patent licensees, the Court stated:

" . . . It is only when, by Judicial decree or otherwise, it is published to the world that the monopoly is destroyed, that the licensee can claim a corresponding release from his obligation to pay royalties."

Where a licensor has covenanted to enforce his patent and the obligations of the licensee to pay royalties are conditioned upon the enforceable validity of the patent, conduct of the licensor abandoning part of his supposed domain of enforceability and a decision of a competent tribunal delimiting validity should be held to result in a corresponding *pro tanto* eviction of the licensee which permits the licensee to dispute the validity of the patent. (Cf. *Wilfley v. New Standard Co.*

with those *disclaimed*. It was held in that case that the retained claims must differentiate "in operation and result" from subject matter disclaimed, for by the disclaimer, the disclaimant has confessed he claimed "more than that of which he was the original or first inventor." Upon comparison, this Court found the only difference to be "in verbiage" and the retained claim accordingly invalid.

<sup>18</sup> Clause 11b of the patent license (R. 9) was undoubtedly bottomed on the same considerations which underlie the doctrine of eviction.

(C. C. A. 9), 164 Fed. 421; *Frost Ry. Co. v. T. H. Symington & Son, Inc.* (D. C. Md.), 24 F. Supp. 20).

It is futile to argue or to hold that petitioner should waive its entire license. It must be remembered that one device manufactured and sold by petitioner is admittedly covered by the narrow claims. Thus, it is obviously unjust to force petitioner to jeopardize its investment in tools and dies necessary to make said device in its various sizes and to become a deliberate infringer of adjudicated valid narrow claims as to this device in order to secure a formal declaration of the invalidity of the broad claims as to other devices.

The license emphasizes the separability of the claims of the patents and contemplated that petitioner did not have to yield the entire license in order to obtain the right to manufacture devices covered only by invalid claims. The purpose of paragraph 11b of the license was to relieve petitioner of the necessity of renouncing the license in order to take advantage of invalid claims. Whether the decision of the Sixth Circuit Court constitutes an eviction or is regarded as the equivalent of an adjudication of invalidity, the result is the same, i.e., devices covered only by invalid claims have been released of the burdens of the license.

## III.

THE DOCTRINE OF *ERIE R. CO. v. TOMPKINS* IS INAPPLICABLE IN THE INSTANT PROCEEDINGS AND IN ANY EVENT THE QUESTIONS ARE FEDERAL, NOT STATE, ONES.

Where the contract of the parties was executed does not appear from the allegations of either complaint, answer, or counterclaim. However, since petitioner has its place of business at Chicago, Illinois, and that of respondent is located at Bellwood, Illinois (R. 1, 5), it may be safely assumed, and will not be disputed, that the contract was executed in the State of Illinois, and that Illinois is the *locus contractus*.

We have made a careful examination of the decisions of the Supreme Court of Illinois, and of those of the inferior appellate tribunals of that State, and have found no decision which in any way specifically disposes of, or in the slightest throws light upon the proper determination of, the questions here presented. The questions are open ones in the State of Illinois;<sup>19</sup> they are similarly of first impression in the Federal Courts, and it is hence immaterial, for all practical purposes, whether they be labelled as Federal or State.

We feel, however, that we are required, nevertheless, to discuss here the broad issue of whether Federal or State law applies, as requested by the Court (R. 59), and accordingly we submit (1) that the present

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<sup>19</sup> To be sure, it is the rule in Illinois that a licensee may not, in relation to past acts under a license, contest the validity of the patent under which he is licensed, *Rhodes v. Ashurst*, 176 Ill. 351, 356. Curiously enough, an authority for the rule in that case is this Court's decision in *Kinsman v. Parkhurst*, 18 How., 289.

proceeding is of a non-diversity character, and hence the doctrine of *Erie R. Co. v. Tompkins* is inapplicable, and (2) that, in any event, as the rights asserted by the petitioner and giving rise to the questions are attributable to the Constitution of the United States and to Acts of Congress, judicial determination of the legal consequences which flow from privileges granted or from acts condemned thereunder, involves decision of Federal, not State, questions.

**(1) The Doctrine of *Erie R. Co. v. Tompkins* Is Inapplicable in a Patent Case**—If the doctrine of *Erie R. Co. v. Tompkins*, 304 U. S. 64, properly is restricted to diversity of citizenship cases, then, as strongly urged by Mr. Justice Jackson in his separate opinion in *D'Oench, Duhme & Co. v. Federal Deposit Ins. Corp.*, 315 U. S. 447, 465, the federal courts are not bound to apply State law in the determination of the substantive questions presented in a non-diversity proceeding.

While jurisdiction of the original or main action brought by respondent to secure an accounting under the patent license issued to petitioner was predicated upon diversity of citizenship, petitioner's counterclaim, as found by the court below (122 F. (2d) 125, 125 F. (2d) 323), sought a "declaratory judgment" holding invalid certain claims of one of the patents under which the license was granted. Jurisdiction of the Federal Courts to entertain such a petition is not dependent upon diversity of citizenship; rather, it is conferred and authorized by Section 274d of the Judicial Code (28 U. S. C. A. §400, Appendix A, *post*, p. 50). The questions presented here arise only upon the counterclaim which, as we now show, must be considered as a case arising under the patent laws and hence is of a non-diversity character.



A petition for a declaratory judgment brought in the Federal courts seeking the judgment of the court whether a patent is valid, and if so, whether it is infringed, has been termed by Professor Borchard as an "infringement suit with reversed parties." (Borchard *Declaratory Judgments*, 2nd Ed. p. 810). It has been expressly held that such a petition is a suit arising under the patent laws of the United States (*E. Edelman & Co. v. Triple-A Specialty Co.* (C. C. A. 7), 88 F. (2d) 852; *Milwaukee Gas Specialty Co. v. Mercoid Corporation* (C. C. A. 7), 104 F. (2d) 589). Further, an action under the Federal Declaratory Judgment Act, presenting a patent controversy, has been held by former Judge Patterson (*Automotive Equipment, Inc. v. Trico Products Corp.* (D. C. N. Y.), 10 F. Supp. 736) to be a suit not resting solely on diversity of citizenship and, therefore, one required to be brought in the district whereof the defendant is an inhabitant under the rule of venue, applicable to non-diversity cases, of Section 51 of the Judicial Code (28 U. S. C. A. §112).

The character of a case is, moreover, always determined by the questions involved (*Starin v. New York*, 115 U. S. 248, 257; *Osborn v. Bank of United States*, 9 Wheat. 738, 824) and when so tested, petitioner's counterclaim is essentially a patent case<sup>20</sup> and certainly a non-diversity case.

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<sup>20</sup> In *Littlefield v. Perry*, 88 U. S. (21 Wall) 205, 222, 223, the test of a substantial patent case for purposes of Federal jurisdiction was stated as follows: "Such a suit may involve the construction of a contract as well as the patent, but that will not oust the court of its jurisdiction. *If the patent is involved it carries with it the whole case.* . . . A court of equity looks to substance rather than form. When it has jurisdiction of parties it grants the appropriate relief without regard to whether they come as plaintiff or defendant."

The need for uniformity of law or of decisions in the Federal and State Courts stressed by Mr. Justice Brandeis, and which constitutes the rationale of the *Erie-Tompkins* case, exists only by virtue of the exercise by the Federal Courts, via diversity of citizenship, of concurrent jurisdiction, with State Courts, over certain cases. That need disappears in a patent case when we consider that (a) the jurisdiction of Federal Courts over patent cases does not depend upon the citizenship of the parties or the amount involved, but upon federal statutes relating to patents (Judicial Code, §24, cl. 7; §256, cl. 5; 28 U. S. C. §§41, 371) and (b) the State Courts cannot assume jurisdiction of a case arising under the Patent Laws of the United States. (*Pratt v. Paris Gas Light & Coke Co.*, 168 U. S. 255, 259).

**(2) Irrespective of Any Limitation of the Erie-Tompkins Doctrine, the Questions Presented Here Are Federal Ones and Are Therefore Governed by Federal Law**—Whether or not this Court sees fit, in this case, to limit the doctrine of *Erie R. Co. v. Tompkins* to diversity cases, the questions here presented are, in any event, federal ones, and, therefore, governed by federal law within the meaning of the rule of *D'Oench, Duhme & Co. v. Federal Deposit Ins. Corp.*, 315 U. S. 447, 455, 456; *Prudence Realization Corp. v. Geist*, 316 U. S. 89; *Baltimore & O. R. Co. v. Kepner*, 314 U. S. 44, 52; *Royal Indem. Co. v. United States*, 313 U. S. 289, 296; *Deitrick v. Greaney*, 309 U. S. 190, 200; *Board of Comm'rs. v. United States*, 308 U. S. 343, 349, 350.

That patent questions generally are not only *sui generis* but also federal ones, and, therefore, governed by federal law, should be evident from our previous

discussion. The following considerations directed specifically at those here presented reinforce our view.

(a) **The First Question, i.e., Whether Public Policy Requires a Patent License Estoppel to Yield to an Inquiry Into Actual Validity of a Patent, Is a Federal One**—When the Court goes, as we submit it must, to the source of the rights raised by this question, it will arrive at the constitutional provision authorizing the patent right and the Act of Congress favorably exerting it. Thus, the grant to the inventor “of the special privilege of a patent monopoly, carries out a public policy adopted by the Constitution and laws of the United States” (*Morton Salt Co. v. Suppiger Co.*, 314 U. S. 488, 492) and, as has been settled, a patent is “the creature of statute law and its incidents are equally so and depend upon the construction to be given to the statutes creating it and them” (*Crown Co. v. Nye Tool Works*, 261 U. S. 24, 40).

That “in the interpretation and application of federal statutes, federal and not local law applies” is no longer open to question (*Prudence Realization Corp. v. Geist*, *supra*). Moreover, the first question raises squarely the issue of whether an estoppel created by an inventor’s contract in restraint of trade yields to an examination of the validity of the patent to determine the actual existence of the statutory requirement of invention. The decision of this question must be ultimately based on the Constitution of the United States and the patent laws and will not owe its authority to the law-making agencies of any state. Cf. *Board of Comm’rs. v. United States*, *supra*.

The Court will also arrive, in searching for the source of the rights here involved, at the commerce

clause of the Constitution and the Anti-Trust Laws passed by Congress under that grant of power.

The public policy declared by those laws, i.e., "dread of enhancement of prices and of other wrongs" (*Standard Oil Co. v. United States*, 221 U. S. 1, 58) is also involved in the determination of the first question, because in the absence of a valid patent, the price fixing provisions are illegal under a long line of cases applying the Sherman Act. The Anti-Trust Laws, moreover, are a "limitation" upon patent rights (*Standard Sanitary Mfg. Co. v. United States*, *supra*; *United States v. Masonite Corp.*, *supra*) and the historical relationship and background of both must be considered in a determination of the question.

In summary, since the patent laws and the federal anti-trust laws together are their own measure of right and wrong, of what they permit and of what they forbid, and since these are federal, not state, laws, and certainly do not come from the common law,<sup>21</sup> it is submitted that questions arising in respect thereof must be labeled as federal ones and determined in accordance with federal law and policy.

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<sup>21</sup> In *Gayler v. Wilder*, 10 How. 477, 494, Chief Justice Taney said:

"The [patent] monopoly did not exist at common law, and the rights therefore which may be exercised under it cannot be regulated by the rules of the common law."

Further, according to Mr. Chief Justice White in *Standard Oil Co. v. United States*, 221 U. S. 1, 50, the debates at the time of the passage of the Sherman Anti-Trust Law show that "doubt as to whether there was a *common law* of the United States which governed the subject in the absence of legislation was among the influences leading to the passage of the act."



**(b) The Second Question, i.e., Whether the Decision in the Jefferson-France Litigation Adjudicated the Invalidity of the Broad Claims of Respondent's Patent, Is a Federal One**—Appraisal of the character of this question is not without difficulty.

In our Brief in support of the petition, we said of this question (p. 32) that whether the decision of the Sixth Circuit Court of Appeals in the *Jefferson-France* litigation be regarded as (a) an eviction, or (b) the equivalent of an adjudication of invalidity within the meaning of the license, the result is the same, i.e., "devices covered only by invalid claims have been released of the burdens of the license."

If the view is taken that this question involves a determination of the issue of validity of letters patent for invention and that "some right or privilege will be defeated by one construction or sustained by the opposite construction" of the Patent Laws (*Pratt v. Paris Gas Light & Coke Co.*, 168 U. S. 255, 259), then it may be accurately said that the question is a substantial patent, i.e., Federal, one. On the other hand, if the view be taken that the question involves merely the interpretation and construction of a contract, then it might seem to follow that the question is a State-one. However, as before stated, no controlling Illinois decision has been found and it may be assumed that the common law of that state is not different from the general law expressed in the federal precedents cited, *ante*, pp. 36-39. Cf. *Kellogg Co. v. Nat. Biscuit Co.*, 305 U. S. 111, 113.

It is impossible, however, to say with even a color of reason that the second question does not really and substantially involve federal and not local law.

*First*, the decision to be considered and construed is that of a federal court rendered in a patent infringe-

ment suit of which federal courts have exclusive jurisdiction (*ante*, p. 43). The force and effect of such a decision upon claims other than those actually adjudicated is obviously a federal matter. Since Congress has not specifically legislated on the subject of decrees or decisions in patent cases or upon their effect on claims not in suit, it logically follows that the matter has been left by the patent statutes to judicial determination, one to be exercised in accordance with federal policy and law.<sup>22</sup> It is illogical to contend that patent policy has left the effect of patent decisions dependent upon state or local law.

*Second*, the specific issue to be determined from a consideration and construction of the decision is whether a federal court has necessarily adjudicated certain claims of letters patent of invention to be invalid. Although this issue arises in connection with the interpretation of a contract, this is not to say the question itself must be labeled a state or local one. If the question affects a federal statute or involves a privilege granted pursuant to federal statute, it is immaterial that interpretation of a local contract is involved. The character of a question depends rather upon the basic rights and laws involved and not upon the manner in which it arises.

*Third*, validity of the claims in question will be defeated by one construction or sustained by the opposite construction of the patent laws of the United States. The patent statutes are directly involved in the deter-

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<sup>22</sup> In the *Deitrick* case, it was said (309 U. S. 190, 200):

"The extent and nature of the legal consequences . . . though left by the statute to judicial determination, are nevertheless to be derived from it and the federal policy which it has adopted. . . ."

mination of the second question because the courts are now called upon to decide whether the claims withdrawn from issue in the *Jefferson-France* case define a "new and useful" invention (35 U. S. C. § 31), it being asserted that they define only an old "balanced transformer" and that they lack the specific combination, i.e., "new and useful" invention of other claims. The comparison of claims which the Court must, in this connection, make, is the full equivalent of that often made for the purpose of applying the disclaimer statutes (35 U. S. C. §§ 65, 71, *ante*, pp. 37, 38). Moreover, since it has been held by the Supreme Court of Illinois that it has no jurisdiction to pass upon a right based upon a patent where "the determination of that claim cannot be made without deciding upon the validity" of the patent (*Forster v. Brown Hoisting Machine Co.*, 266 Ill. 287, 297), it almost indisputably follows that this question cannot be considered a local one.

### Conclusion.

It is respectfully submitted that the questions presented are governed by federal law and policy and that in accordance with the inexorable requirements thereof the judgment of the Court below should be reversed.

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## APPENDIX A.

### Statutes Involved.

The statutes which are necessary to be considered are as follows:

Section 4886 of the Revised Statutes (Act of July 8, 1870, C. 230, § 24, 16 Stat. 201, as amended; 35 U. S. C. § 31):

"Any person who has invented or discovered any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvements thereof, or who has invented or discovered and asexually reproduced any distinct and new variety of plant, other than a tuber-propagated plant, not known or used by others in this country, before his invention or discovery thereof, and not patented or described in any printed publication in this or any foreign country, before his invention or discovery thereof or more than one year prior to his application, and not in public use or on sale in this country for more than one year prior to his application, unless the same is proved to have been abandoned, may, upon payment of the fees required by law, and other due proceeding had, obtain a patent therefor."

The Sherman Act of July 2, 1890; 26 Stat. 209, as amended (15 U. S. C. Secs. 1 and 2):

"Sec. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal . . . Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding \$5,000, or by imprisonment not exceeding one



year, or by both said punishments, in the discretion of the court.

"Sec. 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

The Clayton Act, of October 15, 1914, 38 Stat. 730 (15 U. S. C., Sec. 14):

"Sec. 3. It shall be unlawful for any person engaged in commerce, in the course of such commerce, to . . . make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States . . . or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

The Declaratory Judgment Act, of June 14, 1934, 48 Stat. 955, as amended (28 U. S. C. §400):

"(1) In cases of actual controversy except with respect to Federal taxes the courts of the United States shall have power upon petition, declaration, complaint, or other appropriate pleadings to

declare rights and other legal relations of any interested party petitioning for such declaration, whether or not further relief is or could be prayed, and such declaration shall have the force and effect of a final judgment or decree and be reviewable as such."

## APPENDIX B.

### Comparison of Typical Broad and Narrow Claims of Respondent's Patent.

The following side-by-side comparison of claims 13 and 14 of the patent in suit shows the clear invalidity of the former because either (1) it is directed only to a "balanced transformer" which the Court in the *Jefferson-France* case, 106 F. (2d) 605, found "belonged to the public" at the time of the application for patent or (2) it does not comprise the specific combination which the Court, in that case, found was the sole patentable feature.

Claim 13 now asserted against petitioner (R. 32, 33) was withdrawn from contest after the defendant France had attacked the validity thereof. Claim 14 is one of the three claims found to be valid.

#### Claim 13 (R. 19).

Transformer means comprising the combination of

- (a) magnetic core means
- (b) primary coil means
- (c) secondary coil means
  - (1) one of said coil means consisting of a plurality of coil parts and
  - (2) the other coil means being disposed between said coil parts and in balanced inductive relation thereto and

#### Claim 14 (R. 19).

Transformer means comprising the combination of

- (a) magnetic core means
- (b) primary coil means
- (c) secondary coil means
  - (1) one of said coil means consisting of a plurality of coil parts and
  - (2) the other coil means being disposed between said coil parts and in balanced inductive relation thereto

- (d) shunt means disposed between the parts of the plural coil part means and the other coil means for reducing the voltage in the secondary coil means by saturation of the magnetic core.
- (d) shunt means disposed between the parts of the plural coil part means and the other coil means for reducing the voltage in the secondary coil means by saturation of the magnetic core and
- (e) *a ground connection between the coil parts of the plural coil part means.*

The italicized portion of element (e) in each claim clearly reveals each to relate to a "balanced transformer."

The combination of italicized element (e) of claim 14 with the other elements (a) to (d) of claims 13 and 14 (a balanced transformer with magnetic shunts), was the "short step" which the Sixth Circuit Court of Appeals found to be the patentable invention. This combination is signally missing from claim 13. The latter is obviously the old "balanced transformer" which was said by the Court of Appeals to belong to the public.